

**For Publication**

**December 1996**

### **Railroad Retirement Reminders for 1997**

Railroad retirement annuities, like social security benefits, are scheduled to increase in January 1997 on the basis of the rise in the Consumer Price Index (CPI) during the 12 months preceding October 1996. The Medicare premiums deducted from benefit payments also increase in January, and higher Medicare deductible and coinsurance charges are effective in 1997. At the same time, higher earnings limits allow retirees to earn more during the year without reductions in their annuities.

For employers and employees, while regular railroad retirement tax rates are not changed for 1997, the amounts of compensation subject to these payroll taxes are scheduled to increase in January 1997 as a result of indexing to average national wage increases.

Unemployment and sickness benefits paid by the Railroad Retirement Board will also increase in 1997, but not until July 1.

The following questions and answers provide additional information on these 1997 changes.

#### **1. How are the railroad retirement annuity cost-of-living increases payable in January 1997 calculated?**

Cost-of-living increases are calculated in both the tier I and tier II benefits included in a railroad retirement annuity. Tier I benefits, like social security benefits, will increase by 2.9 percent, which is the percentage of the CPI rise. Tier II benefits will increase by 0.9 percent, which is 32.5 percent of the CPI rise. Vested dual benefit payments and supplemental annuities also paid by the Railroad Retirement Board are not adjusted for the CPI rise.

**2. How is the cost-of-living increase affected if an annuitant receives a social security benefit in addition to his or her railroad retirement annuity?**

If a railroad retirement annuitant also receives a social security benefit, the increased tier I portion is reduced by the increased social security benefit. Tier II cost-of-living increases are not reduced by social security increases.

**3. How much will average railroad retirement benefits and average social security benefits increase after the cost-of-living adjustment?**

In January 1997, the average regular railroad retirement employee annuity being paid increases \$27 to \$1,214 a month and the average of combined benefits for an employee and spouse increases \$38 to \$1,778 a month. Under social security, the average benefit paid to retired workers increases \$21 to \$745 a month and the average combined benefit for workers and their spouses increases \$36 to \$1,256 a month. For aged railroad widow(er)s, the average benefit increases \$18 to \$726 a month, while the average social security widow's benefit increases \$20 to \$707 a month.

**4. What are the basic Medicare Part B medical insurance premium and medical insurance deductible in 1997**

The basic Medicare medical insurance premium deducted from railroad retirement or social security payments increases to \$43.80 from \$42.50 a month as of January 1, 1997. However, the annual medical insurance deductible for doctor bills a beneficiary must pay remains at the 1996 level of \$100.

**5. What are the Medicare Part A hospital deductible and coinsurance charges in 1997?**

For the first 60 days in a benefit period, a Medicare patient is responsible for paying a deductible which is the first \$760 of all covered inpatient hospital services in 1997; this deductible was \$736 in 1996. The daily coinsurance charge that a Medicare beneficiary is responsible for paying for hospital care for the<sup>st</sup> 61 through the 90th day increases to \$190 from \$184. If a beneficiary uses "lifetime reserve" days (the extra 60 hospital days a beneficiary can use when more than 90 days of hospital care is needed in each benefit period), he or she will be responsible for paying \$380 a day for each reserve day used, instead of the 1996 charge of \$368 per day.

In addition, the daily coinsurance charge a beneficiary is responsible for paying for care in a skilled nursing facility for the 21st through the 100th day increases to \$95 from \$92.

## **6. How do the earnings limitations applied to annuitants who work after retirement change in 1997?**

Like social security benefits, railroad retirement tier I benefits and vested dual benefits paid to employees and spouses, and tier I, tier II and vested dual benefits paid to survivors, are subject to earnings deductions if post-retirement earnings exceed certain exempt amounts.

For those under age 65, the exempt earnings amount rises to \$8,640 in 1997 from \$8,280 in 1996. For beneficiaries ages 65 through 69, the exempt earnings amount rises to \$13,500 in 1997 from \$12,500 in 1996. For those under age 65, the earnings deduction is \$1 in benefits for every \$2 of earnings over the exempt amount. For those ages 65-69, the deduction is \$1 for every \$3 of earnings over the exempt amount. However, a retired employee's earnings may also reduce his or her spouse's benefits.

A special rule applies to earnings for one year, usually the first year of retirement. Under this rule, a full annuity can be paid, regardless of annual earnings, for any month in which a person is "retired" and monthly earnings do not exceed a certain limit. In 1997 these monthly limits are \$720 for beneficiaries under age 65, and \$1,125 for those ages 65-69.

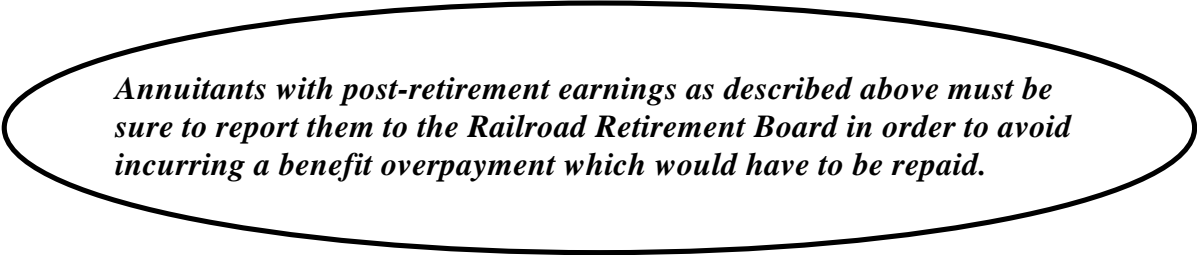
Earnings consist for this purpose of all wages received for services rendered, plus any net earnings from self-employment. Interest, dividends, certain rental income or income from stocks, bonds, or other investments are not considered earnings for this purpose.

These earnings limitations do not apply to any annuitants age 70 or older, starting with the month in which they are 70. Regardless of age and/or earnings, no railroad retirement annuity is payable for any month in which an annuitant (retired employee, spouse or survivor) works for a railroad.

Retired employees and spouses who work for their last pre-retirement nonrailroad employer are subject to an additional earnings deduction, which does not change from year to year. Such employment will reduce tier II benefits and supplemental annuity payments, which are not otherwise subject to earnings deductions, by \$1 for each \$2 of compensation received, subject to a maximum reduction of 50 percent. The deductions in the tier II benefits and supplemental annuities of individuals who work for their last pre-retirement nonrailroad employers apply even if earnings do not exceed the tier I exempt earnings limits. Also, while tier I and vested dual benefit earnings deductions stop when an annuitant attains age 70, these tier II and supplemental annuity deductions continue to apply after the attainment of age 70. An employee's work for a last pre-retirement nonrailroad employer will cause a reduction in the spouse's tier II benefit.

**7. Do the special earnings restrictions on disabled employee annuitants change?**

No, the special restrictions which apply to disability annuitants do not change in 1997. The amount disabled railroad retirement employee annuitants can earn without reducing their benefits is \$400 per month, exclusive of disability-related work expenses. While a disabled employee's annuity is not payable for any month in which he or she earns more than \$400 in any employment or self-employment, withheld payments will be restored if earnings for the year are less than \$5,000. Otherwise, the annuity is subject to a deduction of one month's benefit for each multiple of \$400 earned over \$4,800 (the last \$200 or more of earnings over \$4,800 counts as \$400). However, if a disabled annuitant works after retirement, this may also raise a question about the possibility of that individual's recovery from disability, regardless of the amount of earnings, and must be reported.



*Annuitants with post-retirement earnings as described above must be sure to report them to the Railroad Retirement Board in order to avoid incurring a benefit overpayment which would have to be repaid.*

**8. How much are the maximum amounts of earnings subject to regular railroad retirement payroll on employers and employees increasing in 1997?**

The railroad retirement tier I tax rate of 7.65% for employers and employees, which is the same as the social security tax and for withholding and reporting purposes is divided into 6.20% for retirement and 1.45% for Medicare hospital insurance, remains the same. However, the maximum amount of an employee's earnings subject to the 6.20% rate will increase to \$65,400 in 1997 from \$62,700 in 1996. There is no maximum on earnings subject to the 1.45% Medicare rate; all of an employee's compensation is subject to the Medicare tax.

The railroad retirement tier II tax rates of 4.90% on employees, and 16.10% on employers, are also unchanged, but the maximum amount of earnings subject to the tier II taxes will increase to \$48,600 from \$46,500.

In 1996, the regular railroad retirement tax on an employee earning \$62,700 was \$7,075.05 and the employer's regular railroad retirement tax on such an employee was \$12,283.05. In 1997, the railroad retirement tax on an employee earning \$65,400 will be \$7,384.50 compared to \$5,003.10 under social security, and the employer's tax will be \$12,827.70.

**9. Are the railroad retirement supplemental annuity taxes paid by railroad employers changing in January 1997?**

The rate of the supplemental railroad retirement annuity tax paid solely by rail employers is determined quarterly by the Railroad Retirement Board. The rate for the first quarter of 1997 will be 35 cents per work-hour.

**10. Is there a change in the railroad unemployment insurance taxes paid exclusively by employers?**

In 1997, the basic unemployment insurance tax rates on railroad employers, which are experience rated by employer, will range from a minimum of 0.65% to a maximum of 12% on monthly employee compensation up to \$890, rather than \$865 as in 1996. New employers in 1997 will initially pay a basic tax rate of 1.16%. Almost three-fourths of all employers will be assessed the minimum basic rate of 0.65%, which is \$5.79 per month per employee in 1997.

**11. When, and how much, will the unemployment and sickness benefits paid by the Board increase in 1997?**

Effective October 9, 1996, as a result of the Railroad Unemployment Insurance Amendments Act of 1996, the maximum railroad unemployment and sickness insurance daily benefit rate increased to \$42 from \$36 for the rest of the current benefit year which began July 1, 1996; and the daily benefit rate will increase to \$43 in July 1997.

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